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Nationalized industry controls in the United Kingdom, comparisons with Bill C-24.

(Discussion paper no. 42)

Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

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NATIONALIZED INDUSTRY CONTROLS IN THE UNITED KINGDOM COMPARISONS WITH BILL C-24

by

David Marshall

January 1985

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Synopsis

I spent six months (January-July 1984) on line audit duty with the Nationalized Industries Division of the National Audit Office in the U.K. This was part of the exchange program between the Office of the Auditor General and the National Audit Office. This paper reflects the knowledge gained during my field audit activity and additional research.

The paper has two aims: to show how nationalized industries are controlled in the U.K. so that a comparison with Canadian practice can be made; and to stimulate discussion of the similarities and differences in the controls, especially in light of Canada's new Bill C-24.

The U.K. system of controls has evolved over 40 years and is found in a multiplicity of statutory and non-statutory controls, policy statements, and policy instruments. The present regime of controls has as its main features:

- appointment of the board of directors by the minister;

- setting of overall goals for a nationalized industry by the minister responsible;

- setting of financial targets to be achieved in the form of a reduction of existing loss or a rate of return to be earned on assets (performance against targets to be disclosed and explained to Parliament);

- setting of efficiency and performance targets for each industry; again, performance against targets must be disclosed and explained;

- setting of annual borrowing limits in addition to the overall limits in the nationalization statutes (the borrowing

requirements of nationalized industries are combined with the government's own borrowing requirements to show a consolidated annual figure for deficit financing);

- capital investment approvals for large individual projects, as well as for overall totals;

- requirement for industries to submit annual corporate plans covering a three to five-year horizon;

- external efficiency audits to be carried out by investigators of the Monopolies and Mergers Commission at the direction of the minister;

- consumer councils given statutory powers to hold enquiries into levels of loss, service, community impact;

- parliamentary review through tabling of annual summary information on each nationalized industry during supply debate, as well as scrutiny through sub-committee.

These controls have been criticized from time to time by academics, the Controller and Auditor General, and special government studies. The main criticisms have surrounded the overlapping and sometimes contradictory nature of the controls. For example, the need to stay within a set external borrowing limit can force an industry to cut back its capital investment program, even though the program has been approved by the minister. Another principal criticism has been the absence of priority setting among different controls. For example, which is more important, to meet the financial target or to meet the performance target? The answer is important since the financial target could be met by a monopoly industry through simply raising prices, whereas the performance targets relate to reducing unit costs and increasing efficiency.

Despite these criticisms, the present regime of controls has no doubt forced nationalized industry managers in recent years to think more aggressively in commercial terms. This is especially true with the present government's firm policy of returning profitable industries to the private sector as soon as possible.

The National Audit Office does not have access to the accounts of nationalized industries. Despite this, the Office has succeeded in prodding the government into improving controls. This has been accomplished through systematic and methodical examination of the responsibilities and actions of sponsor departments toward the industries they supervise.

This paper invites readers to consider the similarities and differences between control of nationalized industries in Canada and the U.K. The attached bibliography suggests further reading on the subject.

Introduction

I spent six months (January-July 1984) on line audit duty with the Nationalized Industries Division of the National Audit Office (NAO) in the U.K. During this time, I took part in two studies leading to reports from the Controller and Auditor General (C&AG): a study of controls exercised by sponsor departments over capital investment in nationalized industries; and a study of the Department of Industry's involvement with British Steel Corporation's substantial joint-venture undertakings in the private sector.

This paper reflects the knowledge gained during my field audit activity, wider research into aspects of nationalized industry controls, and discussions with the experienced Director of the NAO's Nationalized Industries Division.

The British government has been coping with nationalized businesses for almost 40 years. Over these years, the demands for sound management as well as accountability have given rise to a complex framework of controls over these state-owned businesses. This paper has two aims: first, to describe the controls now in place so that comparisons can be made with Canada's new Bill C-24; second, to stimulate discussion regarding useful features in the U.K. system that are not present in Canada.

The paper does not evaluate or provide a critique of the U.K. system of nationalized industry controls. A proper evaluation would be too lengthy to include in the scope of this paper. The NAO, academics, and internal government studies have all provided extensive evaluations and criticisms from time to time. The bibliography gives several useful references dealing with evaluations of the present controls.

Background

In its First Special Report, Session 80-81, the U.K. Public Accounts Committee (PAC) said, "There is no proper definition of a nationalized industry".

The Government owns and operates several businesses under differing corporate forms. There are trading bodies managed direct by government departments; for example, Her Majesty's Stationery Office, the Royal Ordnance Factory, and the Royal Mint. These are financed on a revolving fund basis and are audited by the C&AG. There are other state-owned corporations which are run more or less independently of Government that are not audited by the C&AG; for example, the Bank of England, the British Broadcasting Corporation. Finally, there are the nationalized industries proper.

While there is no official definition, a nationalized industry (NI) is taken to be a business or a collection of businesses that was formerly in the private sector and has since been taken into state ownership. Examples are the National Coal Board, British Steel Corporation, and British Gas Corporation.

One of the first nationalized industries was a collection of public drinking houses (the famous British "pubs") in the Carlisle and surrounding districts. These were taken into state ownership during the 1914-18 war because the Government was concerned that workers' patronage of the pubs was interfering with the war effort. Since then, there have been two big waves of nationalizations in the U.K. The first occurred just after 1945 when coal and steel were nationalized, and the second in the 1970s, when shipbuilding and aircraft were taken into the public sector. As a result, the taxpayer, through the government, became owner of a series of businesses whose size and range of activity make them key factors in the economy of the country.

A list of nationalized industries is presented in Appendix 1. In a 1978 White Paper, the Government illustrated the size of this group of companies: it covers major economic activity in energy, communications, manufacturing, transport, and water; it employs about 7 per cent of the country's total labour force; its annual investment accounts for some 14 per cent of total capital investment in the U.K.; and it absorbed, at the time of the report, some 15 per cent of all government borrowing.

The nationalized industries in the U.K. have many features in common with Crown corporations in Canada. Both are state-owned commercial businesses which receive their finance from taxpayers. Both are managed by boards of directors appointed by and responsible to a minister of the Crown. In the U.K., as in Canada, many of the state-owned businesses enjoy a monopoly position in the market place, while others must compete with the private sector. A principal characteristic of both groups is that their members are not subject to the ultimate sanction of the market place -- bankruptcy. The state is committed, more or less, to open-ended support for the companies it owns.

Over the years in the U.K. and in Canada, there has been debate over, and tinkering with, the relationship between the state and the corporations it owns. The main issues have been:

- how to allow the state business enough freedom to operate in a commercially independent way while making it accountable to someone for the money it uses;

- how to reconcile the Government's need to act in the national interest (by, say, holding prices down in times of hardship) with the corporation's need to act commercially, recover its costs and make a profit; and finally,

- how to promote economy and efficiency in state-owned corporations when many are monopolies and there is no threat of bankruptcy for any of them.

Nationalized Industry Controls in the U.K.

In the U.K. there is no central act comparable to Bill C-24 in Canada that sets out the relationship of a nationalized industry with the Government and with Parliament. The existing framework is found in a multiplicity of statutory and non-statutory controls, policy statements and policy instruments that have developed over the past 40 years. Most of the existing statutes which created

each of the NIs embody what is know as the "Morrisonian principle". First enunciated by Herbert Morrison, the Labour Government's House Leader from 1945 to 1951, the principle states that a nationalized industry should be free to run its business with minimal interference from or accountability to the government. In practice, governments of both parties have not been able to resist interfering with the management of the nationalized industries and this has led to confusion in the responsibility for their financial and operational performance. Over the past 20 years, several government studies have been done and policy statements issued on the subject of the Government's relationship with the nationalized industries. The general movement has been toward more control by Government ministers and, at the same time, more disclosure to Parliament. However, government studies, academic literature and the C&AG's reports all express the view that the present regime of controls contains conflicting priorities that have been difficult to follow in practice. The main elements of the present control framework are described below.

Minister Responsible

Each of the nationalization acts makes a specific minister responsible for the industry created. The minister is assisted by officials in his or her department, which is known as the "sponsor department" for the industry.

The minister is responsible for ensuring that the nationalized industry follows government policy and that the industry is provided with adequate guidance and monitoring.

Board of Directors

The board is appointed by the minister responsible for the industry. In policy statements issued in 1978 and 1982, the government has said that it intends to:

- include employee, consumer, and civil service representatives on boards;

- reduce the size of boards where possible; and

- increase the number of non-executive board members wherever possible.

The extent to which these aims have been achieved is not known.

Power of Ministers to Issue Directions to Boards

Each of the nationalization acts is worded individually. As a rule, they give the minister the power to issue general directives to the board where matters of national interest are involved. The Government's 1978 White Paper says that "In the absence of powers to give specific directions, governments have had to rely on a process of persuasion" and that this was unsatisfactory. The Government said in 1978 that it intended to correct the situation by seeking amendments to the individual nationalization acts that would give ministers the power to issue specific directions to the board. This power was supposed to be accompanied by the following safeguards:

- the minister would be required to consult the industry in question before issuing a directive;

- the directive would be in the form of a statutory instrument subject to parliamentary debate and approval;

- the minister would be required to publish an estimate of the extra cost, if any, to the industry of implementing the directive;

- the industry would be paid, where appropriate, compensation to cover the extra cost of implementing a directive, and legislation would cover this.

At present, none of the nationalization acts has been amended and ministers continue to rely on informal persuasion of the board. In some cases, an

industry will refer in its annual report to such matters as "compliance with Government policy as announced by the Minister in the House", but these are not references to specific directions by the minister to the board.

Business Objectives for Industries

The nationalization acts contain general statements of objectives for each industry. In 1978, the Government announced that more specific strategic goals would be agreed with each industry through special studies done at periodic intervals. Examples would be the Plan for Coal and the British Steel study called "The Road to Viability". Long-term policy objectives resulting from these studies will not be reopened unless there is a major change in circumstances. Indeed, as the recent coal miners' strike has shown, departures from long-term goals agreed between management and the unions can have serious effects.

In addition to the long-term goals mentioned above, since 1982 the Government has undertaken a program of defining and agreeing operational objectives with each industry. These objectives, together with the long-term goals, are published in the industry's annual report. The agreement of operational objectives has not been completed for every industry, but where it has, it is a sound step toward measuring achievement.

Financial Targets

Most of the existing nationalization acts require the industry to break even on its profit and loss account. Since 1978 the Government has taken the position that it has a responsibility to set clear financial targets for each nationalized industry, to announce these targets in the House, and to hold the industry accountable for achieving them. At present, financial targets are in place for all the major industries. Appendix 2 provides examples. The main features of the financial target system are as follows:

(i) financial targets are decided on an industry-by-industry basis;

(ii) they are set for a three-to-five-year period;

(iii) they are expressed as a percentage of return before interest on the average net assets employed by the industry;

(iv) for loss-making industries, the target will be to reduce the amount of deficit financing needed by an agreed amount;

(v) they are supposed to take into account what the government judges to be the expected return on assets from effective cost conscious management, market prospects for the industry, the scope for improved productivity and efficiency, the opportunity cost of capital, the implications for the government's overall borrowing requirements, counter inflation policy, and social and sectorial objectives.

In its 1978 White Paper the Government announced that it views financial targets as central to the guidelines that the nationalized industries expect from government. There has been much criticism and debate over the operation of the financial target system (see Redwood & Hatch, "Controlling Public Industries", 1982) and over its relationship with and order of priority relative to the other financially related objectives (see memorandum by the C&AG to the PAC, 1982-83). There is no denying, however, that financial targets are a very real control over nationalized industries.

The case of British Airports Authority illustrates the point. In 1981, BAA was sued by a consortium of airlines because it increased landing fees at Heathrow airport in order to meet financial targets it had agreed with the Government. The airlines questioned the legality of a financial target for a company supposedly operating in the private sector. The suit was settled out of court.

While achievement of the financial targets has been mixed, industries have been required to publicly explain their performance against targets. No

doubt this has stimulated a commercial attitude on the part of boards. Advances are also being made in the way in which targets are being designed. (More recent targets, for example, show innovations such as a base improvement in rate of return, coupled with a variable change in results, depending on volume changes of business that may be outside the control of the corporation.)

External Financing Limits

Each year the government publishes expenditure plans. An important element of these plans is what is called the Public Sector Borrowing Requirement. This is the amount of money the government as a whole will need to borrow in the coming year. The borrowing needs of the nationalized industries are included as part of the Public Sector Borrowing Requirement. The government's expenditure plan includes separate information for each industry and a total for all the industries' borrowing requirements. The Industries' Borrowing Requirement is defined as the difference between internally generated funds and those required to finance operations and capital spending in the year ahead.

As part of its regime of financial control outlined in its White Paper on Cash Controls (CMND 6440), the Government sets a limit called the External Financing Limit (EFL) on what each industry can borrow. This limit is enforced by sponsor departments on a monthly basis. It is the intention of the Government that, while the financial target is a medium-term goal, the EFL provides short-term control over nationalized industries. In practice, as the C&AG pointed out in his 1983 report, "it was not clear how sponsor departments reconciled the achievement by the industries of financial targets with their keeping within EFLs and where these conflicted, which took precedence". In addition, nationalized industries have frequently exceeded their external financing limits, and increases have been granted, though it is fair to say, not without a considerable battle with the Treasury.

Capital Investment Limits

Most of the nationalization acts require industries to consult the minister on major programs of capital expenditure. Since 1978 the Government has considerably strengthened the requirement. Present policy requires industries to earn a minimum of 5 per cent on their overall program of new investment. This is called the "Required Rate of Return". The 5 per cent was set by Government in 1978 following a study of returns obtained on new capital investment in the private sector and it is viewed as the "opportunity cost of capital". The rules on capital investment by nationalized industries are particularly tangled. Their main features are as follows:

- Industries are responsible for carrying out their own appraisals of capital projects, but sponsor departments must satisfy themselves that the industries' procedures are sound.

- The sponsor department and, on its advice, the minister must approve the level of capital spending for the industry. This approval is given following the annual "Investment and Financing Review".

- The minister reserves the right to approve not only the overall capital budget but also specific major projects, and this right is frequently exercised.

- Approval is given by the minister for 100 per cent of capital expenditure planned in the next fiscal year, 95 per cent for that planned in the year following, and 70 per cent for that planned in the third year.

The whole area of ministerial control over capital investment is the subject of a forthcoming C&AG's report to be issued late in 1984. There is considerable practical difficulty in calculating and monitoring the required rate of return on new investments, since the return allows all new investment to be

lumped together with individual projects earning anything from 0 to 10 per cent. Also, the relationship of the return on new investment with the overall return on existing assets, constituting the financial target, has never been resolved.

Performance Targets

The Government has recognized that purely financial targets such as those described above are not sufficient to promote efficiency and effectiveness. For example, a monopoly industry could meet its financial target simply by increasing its prices. To counter this, since 1978, the Government has asked each industry, in consultation with its sponsor department, to select and agree a number of key performance indicators (for example, the unit cost of producing electricity or the average time taken to process passengers at an air terminal), including valid international comparisons, and to publish actual achievement of them prominently in their annual reports. The setting and achievement of good performance indicators is still a developing area in the U.K. and results show that it is still possible for an industry to meet its financial target without becoming more efficient. See Appendix 2.

Pricing Policy

The Government has stated that it is primarily for each nationalized industry to work out the details of its prices with regard to its markets and its overall objectives, including its financial targets. However, the Government believes that ministers must satisfy themselves that the main elements of the Government's price structure are sensible in relation to the costs of supply and the market situation and that the industry has developed the necessary information and accounting systems for this purpose. This last requirement has given rise to a number of investigations by the Monopolies and Mergers Commission and management consulting firms, either ordered by the minister or by the board of directors under pressure from the minister. These are discussed below.

The Corporate Plan

The Government has said that it views corporate planning as having a central place in relations between the nationalized industries and their sponsor departments. Corporate planning is viewed as comprising the following elements:

- The special studies that result in long-term strategic goals as described above.

- Medium-term strategic plans, covering a three-to-five-year horizon, showing alternative strategies and the reason for adopting a particular line of action. These plans are not approved by ministers; however, since 1982, sponsor department staff are required to review the plans in detail and provide written comments to the minister who will hold discussions with the industry chairman.

  In practice, the medium-term corporate plans are used as the broader context and justification for capital investment decisions, pricing decisions, and financial target considerations. The plans are not made public; however, key extracts are shown in the corporation's annual report.

- Annual operating plans. Again, no ministerial approval is required but sponsor department staff are expected to scrutinize these carefully.

- Annual budgets. No ministerial approval here either, but sponsor departments take a close interest in monthly and quarterly progress against budget, particularly from the angle of adherence to the cash limits referred to above.

In practice, the C&AG has found that corporate planning is variable in quality and needs improvement.

The Monopolies and Mergers Commission and Other Studies

Since 1982, as part of a deliberate policy, the Government has undertaken a series of references to the Monopolies and Mergers Commission which has been called in to do efficiency audits on the industries. So far, several such efficiency studies have been done. The reports, which are made public, indicate in some cases a very wide ranging enquiry into the industries' planning and value-for-money arrangements; in other cases, the scope has been restricted by the terms of reference given by the minister responsible.

Consumer Councils

The Government has set up and given statutory authority to a number of consumer councils. The enquiries of these councils are held publicly and a great deal of information on the industries' plans, prices, and efficiency are disclosed in this way.

Audit Arrangements

The minister responsible appoints the auditors. At present, there is provision only for a financial audit to be conducted on the annual accounts of nationalized industries. The Controller and Auditor General has no access to nationalized industry books and records, and successive governments have firmly resisted giving the C&AG access. The existence of Monopolies and Mergers Commission examinations referred to above has been cited as sufficient outside scrutiny of nationalized industries.

The National Audit Office has approached the problem through a careful study of the overall responsibilities and actions of sponsor departments toward the nationalized industries they supervise. So far, the NAO has reported on sponsor department performance on the water industry, coal, telecommunications, British Rail, electricity, Post Office, and British Airways. The NAO studies have commented on such matters as:

- the lack of clarity of existing control mechanisms;
- weaknesses in the functioning of specific controls;
- the ineffectiveness of sponsoring departments in applying controls;
- the failure of the minister to set targets;
- the failure of specific industries to meet targets;
- the wisdom of sponsor departments getting too involved in certain industries and virtually preparing the industries' forecasts for them.

Recently the NAO investigated a more specific area of control -- the control of capital investment in nationalized industries. Three industries and their sponsor departments were studied in detail: British Airports Authority; British Steel Corporation; and British Gas Corporation. The results of the study are due to be published in the fall of 1984. The work of the NAO shows that even without direct access to nationalized industry records, the Audit Office has succeeded in bringing significant issues to the attention of the Public Accounts Committee.

Audit Committees

Present legislation does not require nationalized industries to have audit committees or internal audit functions. However, Government policy is to encourage boards to put these in place.

Parliamentary Review

Parliamentary review is made possible in two ways: first, through tabling and disclosure of various documents relating to the nationalized industries;

and second, through the parliamentary committee structure where certain committees debate matters relating to each of the major industries.

With regard to tabling of information, the minister must announce to the House:

- major directives given the industry (for example, to keep a given steel mill open, despite heavy losses);
- the financial targets set;
- the performance targets set.

These matters are open to questions in the House.

In addition, the minister tables the following information:

- The results of periodic strategic reviews of the industry and the resulting long-term strategy for the industry.
- The capital investment plans and the borrowing requirements of the industry in the next fiscal year. This information is provided as part of the overall estimates and supply debate. A summary for all industries is given, followed by the requirements of each industry. Additional information given as part of this process covers:
    - a description of each of the financial, performance, and borrowing targets set for the industry in the past year, compared with actual results. A projection of future performance against targets for the next four years is also given;

  - a summary of the objectives for each industry as agreed between it and the minister, as well as an overview of business strategy for the next year.

- Monopolies and Mergers Commission efficiency reports are tabled.

- The annual report and accounts for each industry are tabled by the minister in the House. These reports give a fair degree of detail regarding the industry and its results, including:

  - a disclosure of objectives agree with the minister;
  - performance against ministerial targets; and
  - business background, conditions, and plans.

While Parliament appears to get a great deal of information, in practice parliamentary scrutiny is limited. Questions in the House are often deflected by ministers using one standard reply: "The matter is one of commercial confidence", or another: "The matter is one concerning day-to-day operations which are the sole responsibility of the board".

With respect to parliamentary committees, the degree of scrutiny is somewhat greater. Until the late 1970s there was a Select Committee on Nationalized Industries which scrutinized the affairs of all the nationalized industries. The advantage was said to be that the Committee was experienced in common problems of accountability, disclosure and control. With the reform of the committee structure in the 1970s, the Select Committee on Nationalized Industries was disbanded, and a series of new committees took over its responsibilities. At present, the committee which would normally oversee the activities of sponsor departments would also hold hearings on their related nationalized industry. (For example, the Industry and Trade Committee has held numerous hearings into the corporate plan and performance of the British Steel Corporation). The parliamentary committees, however, do not debate and approve the industries' spending plans.

Comparisons with Bill C-24

The U.K. system of controls over nationalized industries is a mixture of statutory and non-statutory procedures. Since the bulk of it is non-statutory and reflects the policy of the Government of the day, it is constantly changing. In comparing the existing scheme of controls with the text of Bill C-24, the following main points emerge:

1. **Directives to the corporation.** Bill C-24 calls for statutory responsibilities to table ministerial directives and show compliance. The existing U.K. practice is much looser than this, and most ministers still do not have statutory authority to issue and enforce directives unless there are major "national interest" issues involved.

2. **Board of directors.** Like Bill C-24, the minister in the U.K. appoints the board of directors. However, there is no statutory requirement in the U.K. to have a majority of non-executive members. The general responsibilities of directors to take due care, etc., are the same in Canada and in the U.K.

3. **Corporate plan.** The requirements of Bill C-24 generally reflect the content of U.K. nationalized industry corporate plans, with one major difference -- there is no requirement for the minister in the U.K. to approve the corporate plan. In the U.K., the minister's department reviews the plan and the minister meets with the industry chairman to discuss it, but a conscious decision has been taken that the minister will not approve the plans.

4. **Operating budget.** Here again, Bill C-24 reflects the existing practice in the U.K., but no government approval to the corporation's budget is given.

5. **Capital spending.** The U.K. practice includes the provisions of Bill C-24 but goes much further. In the U.K. the industry is required to earn a specific rate of return on its new capital investments.

6. **Summary of corporate plan and budget to be tabled in the House.** These provisions in Bill C-24 are generally analogous to U.K. practice.

7. **Approval for borrowing.** The provisions of Bill C-24 appear to be similar to U.K. practice with the exception that the Government in the U.K. includes and publishes in the same budget papers the nationalized industries' borrowing requirements as well as those for its own departments.

8. **Proper books and internal control systems to ensure adherence to authorities and promote the three Es.** The provisions of Bill C-24 (sec. 138) go much beyond the present practice in the U.K. There is no legislative requirement for industries to follow in these areas. Sponsor departments are required to ensure that corporations keep proper books and control systems, but this is not clearly defined and only loosely enforced.

9. **Internal audit.** There is no legal requirement for corporations in the U.K. to have an internal audit function or to have audit committees.

10. **External audit.** The financial audit provisions of Bill C-24 are roughly the same as those in the U.K. Also, the provisions for the minister to appoint the external auditor are similar. There is, however, one significant difference: Bill C-24 provides for the appointment of the Auditor General as auditor of a number of Crown corporations. In the U.K., the Controller and Auditor General does not audit any of the nationalized industries. Indeed, despite the PAC's recommendations to Parliament that the C&AG be given access to nationalized industries, both the former and present Controller and Auditor General have been reluctant to push for this additional responsibility and the Government has been unwilling to confer it on the Office.

11. **Value-for-money audit.** The provisions of Bill C-24 in this area go well beyond anything happening in the U.K. The only examinations related to a value-for-money audit are carried out by staff of the Monopolies and Mergers Commission as described previously. These examinations, however,

can be severly limited in scope, are at the discretion of the minister, and most often do not cover all the activities of the corporation.

12. **Financial and performance targets.** This is an area where the U.K. appears to be further developed in its control framework than that suggested by Bill C-24. The operation of financial and performance targets for nationalized industries occupies a major role in the U.K.

Conclusion

The framework of control over nationalized industries is constantly changing in the U.K. It has evolved over 40 years to its present state as a mixture of statutory and non-statutory measures, some of which contradict each other, and the order of priority between them remains unclear. However, it can be said that the Government does appear to exert considerable control and supervision over the nationalized industries and that the control framework responds from time to time to the criticisms made of it.

With regard to parliamentary and public disclosure, the current U.K. practice pretty well reflects the requirements drafted into the Canadian Bill C-24. In some cases, the U.K. practice appears to go further than Bill C-24, especially in the area of setting industries' financial and performance targets and publicly disclosing results versus targets. In the area of auditing arrangements, the provisions of Bill C-24 go well beyond these of the current U.K. practice. However, the C&AG in the U.K. has taken an interesting approach to prodding the Government into exercising better control -- he has issued several critical reports on how sponsoring departments carry out their existing responsibilities toward the industries they monitor.

Finally, the U.K. experience has shown that the provisions in a statute or the stated policy of governments are not sufficient to ensure good practice in the matter of the nation's minding its own businesses.

I believe there is merit in keeping a close liaison between the Canadian and U.K. audit offices to keep in touch with developments in this area.

APPENDIX 1 - Nationalized Industries in the U.K.

National Coal Board

Electricity (England and Wales)

North of Scotland Hydro-Electric Board

South of Scotland Electricity Board

British Gas Corporation

British National Oil Corporation

British Steel Corporation

British Telecom

Post Office

National Girobank

British Airways Board

British Airports Authority

British Railways Board

British Transport Docks Board

British Waterways Board

National Bus Company

Scottish Transport Group

British Shipbuilders

Civil Aviation Authority

Water (England and Wales)

APPENDIX 2 - Examples of Financial and Performance Targets

	Financial Targets	Performance Targets
British Telecommunications	Return on average net assets of 5.5%.	Reduce real unit costs by 5% p.a. over the five years to 1982-83.
	*Actual achieved: 5.8% return on assets.	*Actual achieved: Reduction of 2.8% p.a. in real unit costs over five years.
British Airports Authority	Return on average net assets at current cost of 6%. *Actual achieved: 5%.	Growth of 9.3% in number of passengers handled per employee. *Actual achieved: 7% growth.
		Reduction of 7.3% in operating costs per passenger.
		*Actual achieved: Reduction of 1.1%.

*Note: These results highlight criticism that monopolies can meet or exceed profitability targets without necessarily increasing efficiency.

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